

## Little Cigars Should Be Taxed At the Same Rate as Cigarettes

Philip Morris USA supports legislation that taxes “little cigars” – which share many similarities with cigarettes in their appearance, packaging, and marketing – at the same rate as cigarettes.

Although “little cigars” are recognized as a separate class of tobacco products under federal law, typical little cigar products share many of the attributes of cigarettes – they are shaped like cigarettes, use cellulose acetate filters, are often contained in 20-unit packs that look similar to cigarette packs, and are often marketed to adult cigarette consumers.

Historically, little cigars have enjoyed significant tax advantages over cigarettes at both the federal and state levels. This large divergence in excise tax rates has contributed to significant growth in the little cigar segment, driven largely by adult cigarette smokers seeking cheaper alternatives with features similar to cigarettes. This trend has, in turn, led to lower tax revenues to the federal and state governments – all without any public policy benefits.

This situation is now changing. As of April 1, 2009, the federal excise tax on little cigars is set at the same rate as cigarettes. In addition, nine states effectively apply the same tax rate on cigarettes and little cigars. We support this effort to equalize tax rates between little cigars and cigarettes.

In Michigan, the current disparity in tax rates creates benefits for manufacturers of discount little cigars without any return benefit for the state government. To illustrate, the table below shows the current tax differentials for two brands of little cigars.<sup>1</sup>

	Wholesale Price	Current Tax 32% of Wholesale Price	Cigarette Tax	Difference
Swisher Sweet Little Cigars	\$2.25	$\$2.25 \times 32\% = \$0.72$	\$2.00	\$1.28
Vaquero Little Cigars	\$1.50	$\$1.50 \times 32\% = \$0.48$	\$2.00	\$1.52

This tax differential results in less revenue to the state. The estimated revenues from little cigars at the current 32% rate and at the cigarette excise tax rate are shown below.<sup>2</sup> By equalizing the tax on little cigars to the cigarette rate, Michigan would realize more than an estimated \$54 million in additional revenue per year.

Michigan Little Cigar Revenues			
Estimated Current at 32%	Estimated at \$2.00/pack Cigarette Rate	Estimated Increase (%)	Estimated Increase (\$)
\$30.0 million	\$84.5 million	182%	\$54.5 million

There is no public policy benefit in providing little cigars with these tax advantages, given the similarities between these products. By equalizing the tax on these products, Michigan can realize more revenue and create greater tax equity for the adult consumer.

<sup>1</sup> Iowa Department of Revenue Minimum Legal Prices as of April 1, 2009.

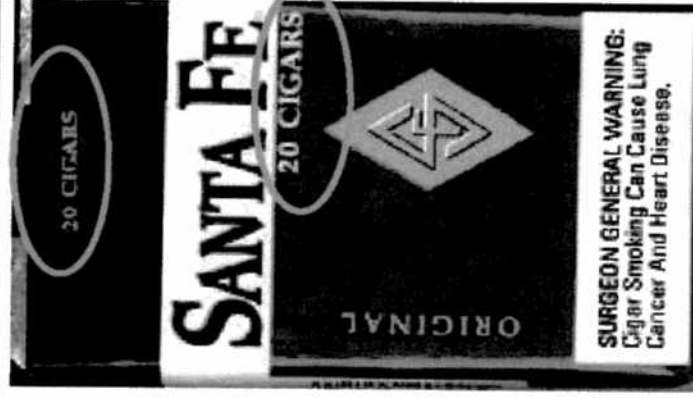
<sup>2</sup> The revenues are estimates and based on data from the ALCS STARS database. It was assumed that the entire FET increase was passed on to the consumer and that the average little cigar price was \$1.72/pack.



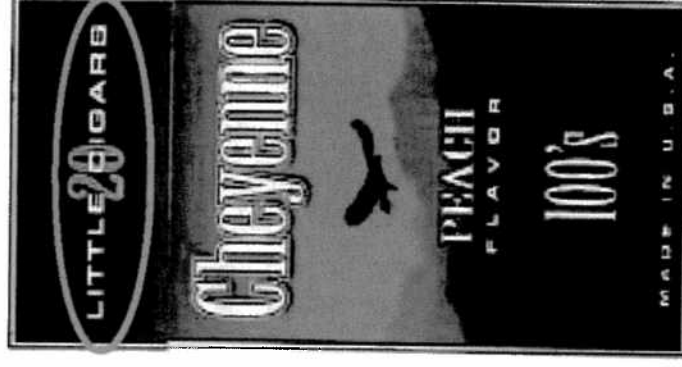
# Pre- vs. Post-FET Products



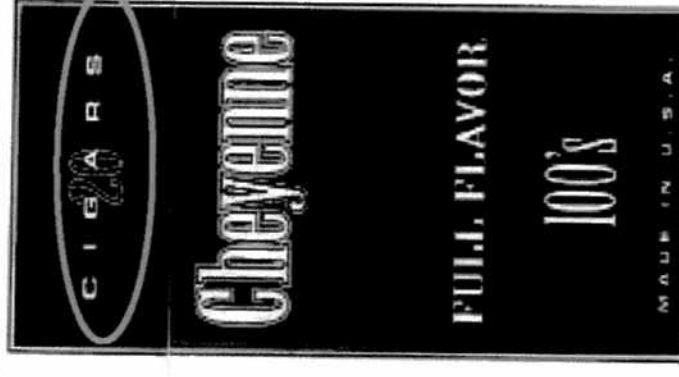
Prior to April 1, 2009



Current



Prior to April 1, 2009



Current

## Product Changes After the FET Increase, Effective April 1, 2009:

- Weight: From **less than 3 lbs.** per 1000 to **greater than 3 lbs.** per 1000
- Classification: Little Cigars to Large Cigars
- Federal Tax Rate: \$1.01/pack to 52.75% of the price



Altria

Information provided by Altria Client Services Inc. on behalf of Philip Morris USA Inc.  
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